

## Special Comment

# Moody's U.S. Public Finance

June 2008

### Analyst Contacts:

#### US Public Finance:

##### New York

**Lisa Washburn** 1.212.553.4133

*Team Managing Director*

**Gail Sussman** 1.212.553.0819

*Group Managing Director*

**Robert Kurtter** 1.212.553.4453

*Team Managing Director*

**John Nelson** 1.212.553.4096

*Team Managing Director*

##### San Francisco

**Kenneth Kurtz** 1.415.274.1737

*Team Managing Director*

#### Credit Policy:

**Naomi Richman** 1.212.553.0014

*Chief Credit Officer, Global Public,  
Project and Infrastructure Finance*

## Announcement: Moody's Extends Comment Period on U.S. Public Finance Rating Scale

In March 2008, Moody's published a Request for Comment (RFC) seeking feedback on potential changes to our U.S. Public Finance rating scale. Importantly, we sought market views on our proposal to provide, upon issuer request, global scale ratings on both taxable and tax-exempt public finance debt alongside our already assigned public finance scale ratings.

Over 150 market participants responded to our RFC.<sup>1</sup> Their comments revealed a strong preference for a single rating scale. In particular, a broad spectrum of market participants noted that maintaining two ratings for any public finance issuer might be confusing, be difficult to track and lead to questions about which is "the rating". Additionally, the majority of respondents indicated the preference that our public finance ratings reflect at least the following two attributes:

1. they should be broadly consistent with the scale Moody's currently applies to corporations, financial institutions and governmental entities globally; and
2. they should to continue to provide reasonable differentiation between the expected creditworthiness of public finance issuers, including high investment-grade credits, by emphasizing qualitative analytical considerations beyond pure expected loss currently captured in other ratings globally – such as default risk, governance, event and transition risk, financial management, capacity for timely payment and disclosure quality.

<sup>1</sup> Please see Appendix I for a break-down of the responses by type of entity.



## Status Update: Assignment of Global Scale Ratings to Tax-Exempt Obligations

As a result of the market views that have emerged, we are proposing to proceed with a single rating scale for public finance issuers, and to transition our public finance ratings to our global scale, which takes into consideration a number of important qualitative analytical factors as noted above. In line with global public authorities' expectations, Moody's consults with the market when considering important modifications to analytical methodology or process.<sup>2</sup> Because this change in approach is appreciably different than that which we proposed in our earlier RFC, we are seeking market feedback on transitioning Moody's assigned public finance ratings to our global scale.<sup>3</sup>

In the interim, the current Moody's public finance ratings remain the market standard for assessing creditworthiness of public finance issues and differentiating between issues.

***Consequently, the comment period has been extended to June 30, 2008. In connection with our reevaluation, we will temporarily discontinue the assignment of new global scale ratings to taxable issues of public finance borrowers utilizing the March 2007 methodology effective immediately.***

Given that Moody's assigns municipal ratings to over 28,000 security types, the pace and method of such whole-sale transition needs to be carefully considered. As such, we will strive to ensure that such transition is implemented in a transparent and efficient manner.

We expect to provide an update to the market on our next steps and the timeline for any ratings transition by the end of July 2008.

<sup>2</sup> See e.g., Financial Stability Forum, "Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience," Provision IV.4, (April 7, 2008).

<sup>3</sup> Throughout the review period we will also re-examine our methodology for incorporating municipal ratings into two-party pay letter-of-credit wrapped transactions.

## Status Update: Assignment of Global Scale Ratings to Tax-Exempt Obligations

## Appendix 1

Breakdown of Feedback Received on Moody's RFC on Global Scale Ratings<sup>4</sup>

	Issuers	Investors <sup>5</sup>	Intermediaries	Industry Organizations and Other Market Participants	Total
Written Responses	46	18	28	6	98
Meetings or Conference Calls	53	21	17	7	98
Total	99	39	45	13	196

## Moody's Related Research

## Special Comment:

- The U.S. Municipal Bond Rating Scale: Mapping to the Global Rating Scale And Assigning Global Scale Ratings to Municipal Obligations, March 2007 (102597)
- Assignment of Global Ratings to Tax-Exempt Municipal Obligations, March 2008 (108116)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

<sup>4</sup> In some circumstances feedback was received both in writing (in response to Moody's RFC) as well as through direct outreach efforts from the same source. Feedback has been received from 164 unique entities. All signatories on written responses have been counted.

<sup>5</sup> Investor feedback received from approximately 35% of the Top 50 Holders of Municipal Bonds representing \$425 billion, or over 60% of the dollar amount, of municipal bonds held by this group (\$696 billion). Source: Reuters, eMAXX, October 2007.

## Status Update: Assignment of Global Scale Ratings to Tax-Exempt Obligations

Report Number: 109143

### Authors

Lisa Washburn

### Production Associates

Wing Chan  
David Heston

© Copyright 2008, Moody's Investors Service, Inc. and/or its licensors and affiliates including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved. **ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.** All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. **NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.** Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at [www.moody's.com](http://www.moody's.com) under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."



**Moody's Investors Service**